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BEFORE THE ARIZONA CORPORATION COMMISSION**COMMISSIONERS**

Arizona Corporation Commission

DOCKETED

AUG 16 2013

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR AUTHORIZATION TO BORROW
FUNDS TO MAKE ITS ACCELERATED
FUNDING PAYMENT TO THE NATIONAL
RURAL ELECTRIC COOPERATIVE
ASSOCIATION RETIREMENT SECURITY PLAN.

DOCKET NO. E-01773A-13-0121

DECISION NO. 74039**OPINION AND ORDER**

Open Meeting
August 13 and 14, 2013
Phoenix, Arizona

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the
Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On April 29, 2013, Arizona Electric Power Cooperative, Inc. ("AEPCO" or
"Cooperative"), filed an application with the Commission requesting authorization to borrow funds to
make an accelerated funding payment to the National Rural Electric Cooperative Association
("NRECA") Retirement Security Plan ("R&S Plan") ("Finance Application").

2. AEPCO is an Arizona class "A" public service corporation and non-profit member-
owned electric generation cooperative located in Benson, Arizona.

3. On May 31, 2012, AEPCO filed an affidavit of publication verifying public notice of
its Finance Application. On May 20, 2013, the Cooperative published notice of its Finance
Application in the *Arizona Daily Star* and in the *Kingman Daily Miner*, newspapers of general
circulation in Pima and Mohave Counties, respectively.

1 4. On July 11, 2013, the Commission's Utilities Division ("Staff") filed a Staff Report
2 recommending approval of the requested authorization. The Staff Report directed parties to file any
3 comments to the Staff Report on or before July 25, 2013.

4 5. On July 18, 2013, AEPCO filed a notice that it had no objections to or comments on
5 the Staff Report.

6 6. AEPCO supplies all or most of the power and energy requirements of its five Arizona
7 Class A member cooperatives. AEPCO is also a member of Sierra Southwest Cooperative Services,
8 Inc. ("Sierra"), which provides staffing services for most of AEPCO's, and the Southwest
9 Transmission Cooperative, Inc.'s ("SWTC"), personnel requirements.¹

10 7. AEPCO's current rates were approved in Decision No. 72055 (January 6, 2011).

11 8. On July 5, 2012, AEPCO filed a rate application that remains pending.²

12 **Finance Request**

13 9. In its Finance Application, AEPCO requests Commission authorization to borrow up
14 to \$6,142,020 from the National Rural Utilities Cooperative Finance Corporation ("CFC") in the
15 form of a 10-year amortizing loan at an interest rate of 2.9 percent to finance the prepayment of a
16 portion of AEPCO's, and AEPCO's share of Sierra's, future pension contributions. In a separate
17 finance application, SWTC is seeking similar financing approval for SWTC's, and SWTC's share of
18 Sierra's, future pension obligations.³

19 10. AEPCO and SWTC, along with more than 800 other cooperatives nationwide, utilize
20 NRECA's R&S Plan (established in 1948 as a traditional defined benefit plan) to provide pension
21 benefits to their employees. AEPCO asserts that the R&S Plan assists cooperatives in attracting and
22 retaining their workforces. According to AEPCO, as part of the Pension Protection Act of 2006,
23 Congress required pension programs such as a NRECA's R&S Plan, to be fully funded in relation to
24 their outstanding retirement obligations by 2017; failure to comply could result in IRS imposed
25 penalties, the imposition of a Deficit Reduction Contribution, or both.

26 11. AEPCO states that NRECA has determined to use the federal requirements as a means

27 ¹ SWTC supplies electric transmission services to its members.

28 ² Docket No. E-01773A-12-0305.

³ Docket No. E-04100-13-0120.

1 of "reinforcing" its R&S Plan ahead of the 2017 compliance date, and to that end is allowing
 2 prepayments of participating cooperatives' ongoing payment obligations. AEPCO asserts that a
 3 prepayment will greatly reduce the possibility or impact of a future Deficit Reduction Contribution
 4 assessment against AEPCO, SWTC and other R&S Plan cooperative participants. Additionally,
 5 AEPCO asserts that prepayment will benefit the cooperatives by: (a) reducing AEPCO, SWTC, and
 6 Sierra's future contribution requirements; (b) cutting their future R&S billing rate by approximately
 7 25 percent; (c) increasing their future liquidity; and (d) enhancing the strength of their balance sheets.
 8 AEPCO also states that the prepayment option allows AEPCO and Sierra to take advantage of the
 9 current low interest rates to finance the prepayment.

10 **Financial Analysis and Staff's Recommendations**

11 12. As of December 31, 2012, AEPCO's capital structure consisted of 3.6 percent short-
 12 term debt, 61.6 percent long-term debt, and 34.8 percent equity. Issuance of the proposed debt results
 13 in a pro forma capital structure composed of 3.7 percent short-term debt, 62.2 percent long-term debt
 14 and 34.1 percent equity.

15 13. Staff's financial analysis indicates that as of December 31, 2012, the Cooperative had
 16 a Debt Service Coverage ("DSC") Ratio of 1.45. With the issuance of the proposed debt, Staff's pro
 17 forma analysis indicates that the Cooperative would have a DSC of 1.4.⁴

18 14. Staff concludes that the pro forma DSC results show that AEPCO has sufficient funds
 19 to pay all obligations.

20 15. The proposed financing does not require AEPCO to encumber its assets.⁵

21 16. Staff concludes that the prepayment of pension contributions using currently available
 22 low interest rates is a proper use of funds, and Staff believes it is in the public interest.

23 ⁴ DSC represents the number of times internally generated cash will cover required principal and interest payments on
 24 short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt
 obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
 and that another source of funds is needed to avoid default.

25 ⁵ Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization
 26 to encumber certain utility assets. Staff states that the statute serves to protect captive customers from a utility's act to
 27 dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service
 impairment due to disposal of assets essential for providing service. Staff states that pledging assets as security typically
 28 provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often
 an unavoidable condition for procurement of funds for small or financially stressed entities.

1 17. Staff states that AEPCO has no Commission compliance issues.

2 18. Staff concludes that issuance of the proposed debt financing for the purposes stated in
3 the Finance Application is within AEPCO's corporate powers, is compatible with the public interest,
4 is consistent with sound financial practices and will not impair AEPCO's ability to provide services.

5 19. Staff recommends authorizing AEPCO to borrow up to \$6,142,020 in the form of a
6 10-year amortizing loan at 2.9 percent per annum from CFC to finance the prepayment of a portion of
7 AEPCO's, and AEPCO's share of Sierra's, future pension contributions as described in the Finance
8 Application.

9 20. Staff further recommends:

10 (a) authorizing AEPCO to engage in any transactions and to execute any documents
11 necessary to effectuate the authorizations granted herein;

12 (b) that the Cooperative provide to the Utilities Division Director, a copy of the loan
13 documents executed pursuant to the authorizations granted herein, within 30 days of the execution of
14 the loan, and also file a letter in Docket Control certifying that such documents have been provided to
15 the Utilities Division; and

16 (c) that any authorization to incur debt granted in this proceeding terminate by
17 December 31, 2013.

18 **Conclusion**

19 21. Based on AEPCO and Staff's analyses, which include, *inter alia*, the conclusion that
20 pre-paying pension costs now will result in lower operating costs in the future, we find that AEPCO's
21 request, and Staff's recommendations to be reasonable, and we approve them.

22 **CONCLUSIONS OF LAW**

23 1. AEPCO is a public service corporation within the meaning of Article XV of the
24 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

25 2. The Commission has jurisdiction over AEPCO and of the subject matter of the
26 Finance Application.

27 3. Notice of the Finance Application was given in accordance with the law.

28 4. The authorizations granted herein are for lawful purposes which are within the

1 corporate powers of AEPCO, are compatible with the public interest, with sound financial practices,
2 and with the proper performance by AEPCO of service as a public service corporation, and will not
3 impair AEPCO's ability to perform that service.

4 5. The authorizations granted herein are reasonably necessary or appropriate for the
5 purposes.

6 **ORDER**

7 IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby
8 authorized to borrow up to \$6,142,020 from the National Rural Utilities Cooperative Finance
9 Corporation in the form of a 10-year amortizing loan at an interest rate of 2.9 percent.

10 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon
11 Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its Finance
12 Application and approved herein.

13 IT IS FURTHER ORDERED that the authorizations granted herein shall expire on December
14 31, 2013.

15 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may engage in
16 any transaction and to execute any documents necessary to effectuate the authorizations granted
17 herein.

18 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
19 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
20 proceeds derived thereby for purposes of establishing just and reasonable rates.

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IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall provide the Utilities Division Compliance Section a copy of any loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and shall file with Docket Control, as a compliance item in this Docket, a letter verifying that such documents have been provided to the Utilities Division.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

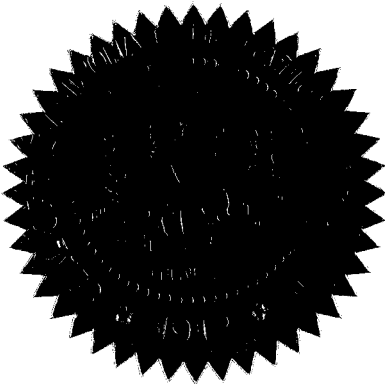
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 16th day of August 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

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